COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY POWER COMPANY FOR (1) A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY AUTHORIZING THE TRANSFER TO THE COMPANY OF AN UNDIVIDED FIFTY PERCENT INTEREST IN THE MITCHELL GENERATING STATION AND ASSOCIATED ASSETS; (2) APPROVAL OF THE ASSUMPTION BY KENTUCKY POWER COMPANY OF CERTAIN LIABILITIES IN CONNECTION WITH THE TRANSFER OF THE MITCHELL GENERATING STATION; (3) DECLARATORY RULINGS; (4) DEFERRAL OF COSTS INCURRED IN CONNECTION WITH THE COMPANY'S EFFORTS TO MEET FEDERAL CLEAN AIR ACT AND RELATED REQUIREMENTS; AND (5) ALL OTHER REQUIRED APPROVALS AND RELIEF	)	CASE NO. 2012-00578

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION TO KENTUCKY POWER COMPANY

Kentucky Power Company ("Kentucky Power"), pursuant to 807 KAR 5:001, is to file with the Commission the original and eight copies of the following information, with a copy to all parties of record. The information requested herein is due by February 20, 2013. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Kentucky Power shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which Kentucky Power fails or refuses to furnish all or part of the requested information, Kentucky Power shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention should be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request.

1. Refer to paragraph 1 of Kentucky Power's verified application ("Application"), where it states, "[A]t this crossroad, and as promised earlier this year when Kentucky Power withdrew its application to retrofit Big Sandy Unit 2, the Company has conducted in-depth analysis of reasonable portfolio alternatives to determine the best path to ensure adequate and reliable capacity for its customers." Provide in electronic format, with formulas intact and unprotected, along with the date the analysis was performed, copies of all in-depth analyses performed to determine the best path to ensure adequate and reliable capacity for Kentucky Power's customers.

2. Refer to paragraph 11 of the Application, where it states, "[T]he net book value of the fifty percent interest as of December 31, 2011 was $519 million and

presently is forecasted to be approximately $535 million at the time of closing." Provide the following:

a. The projected investments, along with the estimated in service date of the investments, which will cause the net book value to increase from $519 million as of December 31, 2011 to the estimated $536 million as of the anticipated closing date of December 31, 2013;

b. The December 31, 2012 allowance inventory and the associated cost for the Mitchell and Big Sandy Plants;

c. An explanation, by plant, of how the Mitchell and Big Sandy Plants' allowance inventory and the associated costs are to be accounted for as of December 31, 2013, the expected date of the Transfer and Assumption Transaction; and

d. The net book value of the undivided 50 percent interest of the Mitchell generating station as of December 31, 2012, including the book value of the transferred assets and the book value of the assumed liabilities as of December 31, 2012.

3. Refer to paragraph 12 of the Application where it states, "[T]he Mitchell generating station consists of two base load coal-fired electric generating units with a total average annual capacity rating of 1,560 MW. Unit 1 of the Mitchell generating station has an average annual capacity rating of 770 MW; Unit 2 has an average annual capacity rating of 790 MW." Also, refer to Exhibit 3, page 2, of the Application where it states, "WHEREAS, Appalachian and KPCo have acquired an undivided ownership interest in the Mitchell Power Generation Facility consisting of two 800MW generating units and associated plant, equipment and real estate, located in Moundsville, West

Virginia, (the "Mitchell Plant")." Reconcile the difference between the capacity rating for the two Mitchell units mentioned in paragraph 12 of the Application (i.e., 770 MW for unit1 and 790 MW for unit 2) and Exhibit 3, page 2 (i.e., 800 MW for each unit).

4. Refer to paragraph 19 of the Application where it states, "[F]ollowing termination of the Pool Agreement, the Company will be required to have sufficient generation to meet its load and reserve obligation." Provide separately by year, from 2014 to 2024, Kentucky Power's estimated generation, estimated load obligation, and estimated reserve obligation.

5. Refer to paragraph 21 of the Application where it states, "[T]he Transfer and Assumption Transaction is intended to permit the Company to meet its long-term capacity obligations and to provide base load generation to meet its customers' energy requirements." Explain whether the Transfer and Assumption Transaction is the least-cost and most cost-effective means for Kentucky Power to comply with existing and anticipated environmental requirements.

6. Refer to paragraph 27 of the Application, pages 11-12, and Exhibit 3, the Mitchell Plant Operating Agreement.

a. Provide Kentucky Power's definition of "good utility practice." Explain whether there are internal or external reviews or audits to assess this.

b. State whether there are written procedures used by Appalachian Power as identified in Section 1.1 of Exhibit 3.

c. State whether this type of agreement is in use elsewhere.

7. Refer to paragraph 30 of the Application which states, ". . . there are no capacity equalization payments required under the Power Coordination Agreement."

a. Provide Kentucky Power's actual capacity equalization payments, by month, from 2008 to 2012.

b. If Kentucky Power were to purchase energy from either Appalachian Power Company or Indiana Michigan Power Company under the Power Coordination Agreement, explain how the energy would be priced and state whether there would be any associated transmission charge.

8. Refer to paragraph 36, pages 15-16, of the Application, which states, "Kentucky Power performed a thorough review of reasonable alternatives to meet its capacity and energy requirements, including energy efficiency resources, and determined the Transferred Assets are the least cost, reasonable alternative for meeting the Company's capacity and energy requirements."

a. Provide a list of the energy efficiency programs reflected in the aforementioned review, along with each program's associated energy savings and the cost to implement the energy savings program.

b. State whether any cost benefit analysis was performed on these energy efficiency programs. If yes, provide the cost benefit analysis. If no, explain why.

c. State whether any costs associated with the energy efficiency programs are reflected in Kentucky Power's review.

d. State whether Kentucky Power's review of reasonable alternatives to meet its capacity and energy requirements included an analysis in which it would receive more than the planned 50 percent undivided ownership in the Mitchell Plant. If yes, provide the analysis. If no, explain why such an analysis was not performed.

9. Refer to paragraph 37 of the Application, which states, "Kentucky Power will submit requests to modify existing Title V permits, and other permits and licenses to reflect its transfer of an undivided fifty percent interest in the Transferred Assets."

a. Provide the amount of air emission fees paid to the State of West Virginia for the Mitchell Plant from 2008 to 2012.

b. Provide the amount of air emission fees paid to the Commonwealth of Kentucky for the Big Sandy Plant from 2008 to 2012.

c. Provide any other environmentally related fees paid by the Mitchell Plant from 2008 to 2012.

d. Provide any other environmentally related fees paid by the Big Sandy Plant from 2008 to 2012.

10. Refer to paragraph 39 of the Application where it states, "[U]sing the actual 2011 cost incurred as an estimate of Kentucky Power's annual operation and maintenance cost of the Transferred Assets, these costs were $134.9 million for operations and $15.5 million for maintenance in 2011."

a. Provide the total operation and maintenance cost for the Mitchell Plant, broken down by Unit for 2010, 2011, and 2012 and projected for 2013, 2014, and 2015.

b. Provide the fuel cost on a per kWh basis for the Mitchell Plant, broken down by Unit for 2010, 2011, and 2012 and projected for 2013, 2014, and 2015.

c. State whether any incremental transmission facilities are required to be installed as a result of Kentucky Power's fifty percent ownership in the Mitchell Plant. If so, provide the estimated associated investment in and/or cost of these facilities.

d. State whether Kentucky Power will incur any incremental transmission cost as a result of its fifty percent ownership in the Mitchell Plant. If so, identify the types of cost and provide the estimated annual amount.

11. Provide, by unit, Big Sandy Plant's fuel cost on a per kWh basis for calendar years 2010, 2011, and 2012 actual and 2013, 2014, and 2015 estimated.

12. Refer to paragraph 39 of the Application, which states, "[I]n addition, using these and other 2011 values to reflect the effects of the Mitchell transfer and the termination of the current Pool Agreement on KPCo, the Company's cost of service would have increased approximately eight percent". Provide in electronic format, with formulas intact and unprotected, the analysis supporting the approximate 8 percent increase, along with the assumption(s) used in the analysis.

13. Refer to paragraph 44 of the Application where it states, "[W]ithin six months of closing of the Transfer and Assumption Transaction, Kentucky Power anticipates issuing debt in the approximate amount of $275 million." Provide the final anticipated split between debt and equity of the Transfer and Assumption Transaction.

14. Refer to paragraph 44 of the Application, which states:

> In addition, the rights and liabilities associated with the West Virginia Economic Development Authority ("WVEDA") Pollution Control Revenue Bond ("PCRB")[1] that partially financed the FGD units constructed at the Mitchell

[1] West Virginia Economic Development Authority $65,000,000 Series 2008A Mitchell PCRB.

> generating station will be transferred to Kentucky Power. This $65 million WVEDA bond for Mitchell is currently held in trust by Ohio Power and may be reissued by Kentucky Power.

a. State whether the $65 million WVEDA bond increased the debt associated with the Transfer and Assumption Transaction or whether the $65 million is included in the $275 million anticipated debt issuance.

b. State whether the $65 million WVEDA bond associated with the Mitchell Plant flue-gas desulfurization ("FGD") will be held in trust by Kentucky Power.

c. Explain why the $65 million WVEDA bonds associated with the Mitchell Plant FGD should be held in trust, including any benefits to Kentucky Power and its ratepayers of doing so.

15. Refer to paragraph 70 of the Application, pages 24-25, which states:

> Based upon the Company's re-evaluation, Kentucky Power concluded that the transfer of a fifty percent undivided interest in the Mitchell generating station and the retirement of Big Sandy Unit 2 by June 2015 is the least cost alternative for meeting its long-term capacity obligations and to provide base load generation to meet its customers' energy requirements.

a. Provide, by unit, the generating capacity that will be available to Kentucky Power from January 2014 to May 2015, the projected load for this time period, and state whether Kentucky Power will have surplus generating capacity.

b. If Kentucky Power will have surplus generating capacity from January 2014 to May 2015, provide the Company's plans for its surplus generating capacity.

c. If Kentucky Power will have surplus energy from January 2014 to May 2015, provide the company's plans for the surplus energy.

16. Refer to paragraph 71 of the Application, which references a requested deferral of $29,287,494 in incremental costs associated with the Phase I investigation of a FGD. Also, refer to Case No. 2011-00401,[2] the response to Item 18.b. of Commission Staff's First Request for Information, which provides support for $15,212,425 in costs incurred during the 2004 to 2006 time frame for preliminary analysis of a wet FGD technology.

a. Reconcile the differences in the two amounts.

b. Provide a breakdown showing, by year, the time over which the $29,287,494 cost was incurred.

17. Refer to Exhibit 1 of the application, Asset Contribution Agreement Between AEP Generation Resources Inc. and Newco Kentucky, Section 2.03.

a. Provide the net book value as of December 31, 2011 for each of the Assumed Liabilities listed in section 2.03 of the asset contribution agreement (i.e., Assumed Payables, Debt, Deferred Tax Liability, and Property Taxes related to the Transferred Assets).

b. Provide the net book value as of December 31, 2012 for each of the Assumed Liabilities listed in section 2.03 of the asset contribution agreement (i.e., Assumed Payables, Debt, Deferred Tax Liability, and Property Taxes related to the Transferred Assets).

[2] Case No. 2011-00401, Application of Kentucky Power Company for Approval of Its 2011 Environmental Compliance Plan, for Approval of Its Amended Environmental Cost Recovery Surcharge Tariff, and for the Grant of a Certificate of Public Convenience and Necessity for the Construction and Acquisition of Related Facilities (Ky. PSC May 31, 2012).

c. Provide a copy of Schedule 1.02 referenced in Section 1.01 of the asset contribution agreement defining the term "Assumed Payables."

d. Provide a copy of Schedule 1.03 referenced in Section 1.01 of the asset contribution agreement defining the term "Debt."

18. Refer to pages 4-5 of the Direct Testimony of Gregory G. Pauley ("Pauley Testimony"), which states:

> It is important to recognize that although I am the President and COO of Kentucky Power, the Company is a wholly-owned subsidiary of AEP. As a result, I am responsible to AEP for the operation and performance of Kentucky Power. In fulfilling my responsibilities, I work collaboratively with AEP executive management, the management of the other AEP East operating companies, including Charles R. Patton, President and COO of Appalachian Power Company ("APCo"), (collectively "AEP Management"), and AEPSC personnel to address those matters for which I have responsibility. I regularly meet with Robert P. Powers, Executive Vice President and COO of AEP, and have access to Nicholas K. Akins, President and Chief Executive Officer of AEP, when needed. This collaboration provides Kentucky Power access to valuable resources, but, as Mr. Akins has informed the Commission, I am in charge of the Company.

Identify the person to whom Mr. Pauley reports by name and position.

19. Refer to page 7, lines 7-14, of the Pauley Testimony, which states:

> Kentucky Power is a party to an agreement dated July 6, 1951, as amended, by and between APCo, Kentucky Power, Indiana Michigan Power Company ("I&M'), and OPCo. Under the Pool Agreement, Kentucky Power and the other parties to the agreement function as an integrated system by jointly satisfying their combined needs for capacity and energy. On December 17, 2010, Kentucky Power and the then four other parties to the Pool Agreement gave notice in conformity with the three-year notice requirements of the Pool Agreement of the termination of that agreement effective January 1, 2014.

a. Provide a schedule which shows each year since Kentucky Power has been a member of the American Electric Power ("AEP") East Pool and for each year indicate whether Kentucky Power has been a deficit or surplus member.

b. For each year that Kentucky Power was a deficit company, state whether it was charged its Member Load Ratio share of the average cost of generation of the surplus members of the AEP East Pool through the capacity equalization payments, as referenced in the Application, paragraph 30.

c. If the monthly capacity equalization payments are part of Kentucky Power's base rates, state whether Kentucky Power ratepayers financially supported the generating facilities of the surplus members of the AEP East Pool during the time Kentucky Power was a deficit member.

20. Refer to pages 7-8 of the Pauley Testimony regarding the termination of pool agreement. Describe how this termination will affect energy costs to Kentucky Power.

21. a. Refer to the Pauley Testimony, page 18-19, regarding the availability of the Mitchell units in 2015. Elaborate further on the statement that it would be unreasonable to expect AEP Generation Resources to delay the transfer of the interest of the Mitchell units to Kentucky Power until such time as Big Sandy Unit 2 is projected to be retired in June 2015.

b. Refer to the Pauley Testimony at page 18, line 14 to page 19, line 2. Describe what incremental cost in either capital or operating expenses Kentucky Power will incur due to transferring Mitchell in December 2013 when it is not needed until June 2015.

22. Refer to Case No. 2011-00401, Commission Staff's Third Request for Information, Item 13.b., which states, "20 percent of the Mitchell units would initially provide more than sufficient capacity to meet the required reserve margin under PJM's fixed resource requirement."

a. Confirm that this statement is correct as of February 2013.

b. If the answer to a. is yes, state whether owning 50 percent of the Mitchell Plant units and corresponding generation would provide Kentucky Power with more than sufficient capacity to meet the required reserve margin under PJM's fixed resource requirement after the retirement of both of the Big Sandy units.

c. If the answer to b. is no, explain what percentage of Mitchell Plant units' generation would meet the required reserve margin under PJM's fixed resource requirement.

23. Refer to page 12, line 16, of the Pauley Testimony, which refers to "a 30-year economic study period (2014 through 2040)." Confirm that the study period begins in 2011.

24. Refer to page 20, lines 3-4, of the Pauley Testimony.

a. What is the status of Kentucky Power's plans for the issuance of a Request for Proposal ("RFP") for 250 MW of long-term capacity and energy due to the anticipated retirement of Big Sandy unit 1?

b. Based on current plans, state when Kentucky Power anticipates receiving the bids in response to the RFP.

25. Refer to page 2, lines 19-20, of the Direct Testimony of Mark A. Becker ("Becker Testimony").

a. Identify the version of Ventyx's Strategist model that Kentucky Power used for its analysis.

b. State whether Kentucky Power modified, restricted or constrained the model for use in its analysis. If so, describe in detail the changes that Kentucky Power made and explain why the changes were made.

26. Refer to page 3, lines 6-8, of the Becker Testimony.

a. Identify and describe the demand-side management programs Kentucky Power included in its Strategist analysis.

b. Provide the estimated impact on peak demand and energy requirements for each of the demand-side management programs.

27. Refer to page 6, lines 13-14, of the Becker Testimony, which state, "Strategist® was used to perform the economic evaluation of the Big Sandy emission retrofit and other alternative options in Case No. 2011-00401."

a. State whether Kentucky Power performed an economic evaluation, using the Strategist model, on the impact of the Mitchell Plant units if Kentucky Power were to acquire more than the proposed 50 percent undivided interest in the units. If the answer is yes, provide the results. If no, explain why such an analysis was not performed.

b. State whether Kentucky Power performed an economic evaluation, using the Strategist model, assuming that Kentucky Power would acquire a 250 MW undivided interest in the Dresden or Waterford generating plants along with the proposed 50 percent undivided interest in the Mitchell Plant units. If yes, provide the results. If no, explain why such an analysis was not performed.

c. Provide the sequence and a time line of events that led to Kentucky Power's decision not to construct a Dry Flue Gas Desulfurization ("DFGD") on the Big Sandy Unit 2. Include in the response a time line of when the decision not to construct the DFGD was made, and also identify by whom, and whether it was a board, committee, or informal group that made the decision.

28. Refer to page 7, lines 22-24, of the Becker Testimony.

a. Provide Kentucky Power's weighted average cost of capital as of December 31, 2011.

b. State whether the weighted average cost of capital changed from the previous year, and if so, from what level.

29. Refer to page 8, lines 3-4, of the Becker Testimony. Provide the long-term commodity pricing forecasts prepared by American Electric Power Service Corporation's Fundamental Analysis department and the forecasted load for Kentucky Power over the analysis period.

30. Refer to page 3, lines 7-19, of the Direct Testimony of Karl R. Bletzacker ("Bletzacker Testimony"). Provide the actual values used for the nine forecasts mentioned in lines 13-19 for each year in the analysis. Provide the forecasts in electronic Excel spreadsheet format with formulas intact and cells unprotected.

31. Refer to page 4, lines 3-6, of the Bletzacker Testimony.

a. Discuss the methodology that Kentucky Power used to develop the forecasts used in its analysis for each of the following:

(1) Natural gas prices;

(2) CO_2 prices;

(3) Coal prices in the Northern and Central Appalachian regions; and

(4) On- and Off-peak energy prices and capacity values within the PJM-RTP RPM construct.

b. Provide a detailed explanation of how the ranges (high, base and low) for the forecasted values recommended by the Fundamentals Analysis group for use in Kentucky Power's analysis were determined.

c. Provide any narrative or documentation that supports the forecasts and further explains the basis for the forecasted values.

d. Identify all source documents the Fundamentals Analysis group relied on to develop its forecasts, including information and forecasts provided by Cambridge Energy Research Associates, PIRA and WoodMackenzie. Indicate date of forecast and provide the forecasts in an electronic Excel spreadsheet format with formulas intact and cells unprotected.

e. State when each of these forecasts was last updated prior to inclusion in the analysis.

f. State whether any of the forecasts were updated subsequent to the analysis. If so, provide the updated forecasts in electronic Excel spreadsheet format with formulas intact and cells unprotected.

g. Provide documentation of the process that AEP's Fundamentals Analysis group uses to develop, update, and approve its forecasts.

32. Refer to pages 6 and 7 of the Bletzacker Testimony, regarding Kentucky Power's long-term outlook for natural gas. Provide support for the statements that the

environmental impacts of shale gas development will ultimately be manageable and that the domestic natural transportation gas infrastructure is sufficiently robust to overcome any potential constraints due to increased demand for natural gas.

33. Refer to page 3, lines 11-14, of the Direct Testimony of Jeffrey D. LaFleur ("LaFleur Testimony"). Provide the following operational data for the Mitchell Plant Units 1 and 2 for the past five years:

a. Heat Rate (btu/kwh);

b. Capacity Factor;

c. Equivalent Forced Outage Rate (EFOR);

d. An outline of major availability detractors;

e. Recent boiler condition assessments;

f. Recent turbine/generator overhauls and assessments;

g. Recent high energy piping assessments; and

h. Recent plant life assessment reports.

34. Refer to page 3, line 19, to page 4, line 1, of the LaFleur Testimony which states, "[U]nits 1 and 2 were retrofitted in 2007 with state-of-the-art environmental pollution controls in the form of a Flue Gas Desulfurization ("FGD") system for sulfur dioxide ("SO_2") emissions reduction and a Selective Catalytic Reduction ("SCR") system for nitrogen oxides emissions reductions."

a. Provide the year the FGD and SCR analysis for the Mitchell Plant Units 1 and 2 was initiated.

b. Provide the in-service dates for the Mitchell Plant Units 1 and 2 FGDs.

c. Provide the year when the FGD and SCR analysis for AEP's Amos Plant Units 1 and 2 was initiated.

d. Provide the in-service dates for the Amos Plant Units 1 and 2 FGD and SCR.

e. Provide the date that precipitators were installed and state whether any studies were conducted on their capability going forward or in consideration of replacement with bag house technology.

35. Refer to page 5, lines 16-17, of the LaFleur Testimony, which state, "[H]owever, unlike the Mitchell and Amos units, Big Sandy Unit 2 is not retrofitted with a FGD system."

a. Explain why Big Sandy Unit 2 was not retrofitted with a FGD system at the time the Mitchell and Amos units were retrofitted.

b. State whether the in-service cost for a Big Sandy Unit 2 FGD would have been reasonably comparable to the Mitchell FGD in-service costs if the Big Sandy Unit 2 FGD had been installed in 2007, at the same time as the Mitchell Plant units were retrofitted. Take into consideration that Big Sandy Unit 2 and the Mitchell units are of similar design and nominal generating capacity. If the costs would not have been reasonably comparable, explain why.

36. Refer to page 3, line 9, to page 4, line 4, of the Direct Testimony of Karl A. McDermott ("McDermott Testimony"), which states:

> After reviewing the regulatory environment in Kentucky and the asset transfer proposal, I conclude that:
>
> 1. Kentucky Power's Proposal is the least-cost combination of feasible and reasonable options available to meet its future obligations to customers.

> 2. The Proposal represents a flexible portfolio that includes employing market forces for a smaller amount of supply (250 MW) which the markets have greater capability of meeting in a cost effective manner.
>
> 3. The Proposal will allow Kentucky Power to eliminate the need to retrofit Big Sandy 2, which will avoid significant capital investments and the consequent rate impacts associate with those expenses.
>
> 4. It is unnecessary for Kentucky Power to conduct a full RFP process since the analysis conducted by the Company includes evaluations that approximate price bids that would result from an RFP process.
>
> 5. The Proposal maintains the Commission's regulatory and rate authority over an owned asset.

a. If Kentucky Power eventually takes ownership of the generating assets associated with the conclusion drawn in number 2 above, state whether that would increase or decrease the Commission's regulatory and rate authority over an owned asset.

b. If Kentucky Power eventually takes ownership of the generating assets associated with the conclusion drawn in number 2 above, state whether that would tend to increase or decrease the stability of the rates Kentucky Power's customers would pay.

c. If Kentucky Power eventually takes ownership of the generating assets associated with the conclusion drawn in number 2 above, state whether all of the other conclusions would remain the same as long as the cost of the 250 MW is equal to or less than the market price.

d. If the answer to part c. is no, explain why.

37. Refer to page 7, lines 7-11, of the McDermott Testimony.

a. State whether Mr. McDermott would agree that the list of alternatives should also include existing generating assets in the region.

b. State whether Mr. McDermott is familiar with the Riverside Generating assets in eastern Kentucky.

38. Refer to page 9, line 1, of the McDermott Testimony. State whether the choice of options should also consider socio-economic impacts in the utility service area.

39. Refer to pages 11-12 of the McDermott Testimony and pages 36-38 of the Direct Testimony of Scott C. Weaver ("Weaver Testimony") in which the witnesses discuss the fact that Kentucky Power did not issue a RFP as part of its consideration and evaluation of options for replacement capacity and energy.

a. The testimonies reference existing plant(s) within PJM in discussing what might be offered as a result of issuing an RFP. State whether there would be reasons for limiting potential bids/offers to sources within PJM.

b. The testimonies reference gas-fired capacity (McDermott) and combined cycle ("CC") assets (Weaver) as the generation source that would most likely be offered, or available, as a result of an RFP solicitation. Given the availability of the Mitchell capacity at this time, explain how confident Kentucky Power and AEP are that other, non-AEP coal-fired capacity might be available in response to an RFP.

40. Refer to pages 11-12 and page 13, lines 1-4, of the McDermott Testimony. The testimony at page 11 indicates that it was not necessary for Kentucky Power to issue an RFP and competitively bid its resource needs, but the testimony at page 13

states that the Commission should use RFPs "for power procurement." Explain the apparent dichotomy in the testimony.

41. Refer to page 10, lines 22-23, and page 11, lines 1-2, of the Direct Testimony of John M. McManus ("McManus Testimony").

a. Provide details of any modifications that have been implemented or are planned to be implemented to bring the Mitchell Plant Units 1 and 2 into compliance with the December 2011 EPA Mercury and Air Toxics Standard ("MATS").

b. Provide cost estimates for any modifications to enable the Mitchell Units to comply with MATS.

c. Provide the expected schedule required to implement MATS compliance projects associated with the Mitchell Unit.

42. Refer to page 11, lines 4-6 of the McManus Testimony.

a. Provide details of any modifications that have been implemented or are planned be implemented to bring the Mitchell Units 1 and 2 into compliance with the December 2012 EPA National Ambient Air Quality Standard ("NAAQS") as associated with Particulate Matter $_{2.5}$ ($PM_{2.5}$) with limitation to a flue gas concentration of $12ug/m^3$.

b. Provide cost estimates for any modifications to enable the Mitchell Units to comply with the latest NAAQS.

c. Provide the expected schedule required to implement associated Mitchell Unit's NAAQS compliance projects.

43. Refer to the McManus Testimony, page 11, lines 17 through 19.

a. Provide details of any modifications that have been implemented or are planned be implemented to bring the Mitchell Plant Units 1 and 2 into compliance with the pending EPA Clean Water Act 316b cooling water intake regulations.

b. Provide cost estimates for any modifications to enable the Mitchell Units to comply with pending EPA Clean Water Act 316b cooling water intake regulations.

c. Provide the expected schedule required to implement pending EPA Clean Water Act 316b cooling water intake regulations for the Mitchell Plant units.

44. Refer to the McManus Testimony. State whether the Mitchell Plant Units meet the requirements of the recently issued final rule for particulate matter that reduced the standard from 15 ug/m^3 to 12 ug/m^3. If not, provide the estimated increases in capital and operating expenses required for compliance.

45. Refer to page 4, lines 13-16, of the Weaver Testimony, which states, "[A]s will be discussed, this testimony will serve both to re-analyze all of the unit disposition options previously evaluated in Case No. 2011-00401 utilizing more up-to-date information, and introduce the results of economic modeling performed to assess additional options now available to KPCo."

a. State whether Mr. Weaver or anyone else at American Electric Power Service Corporation ("AEPSC") or Kentucky Power performed any analysis other than that involving the options filed in this proceeding. If yes, provide a description of the analysis and the results of the analysis.

b. State whether Mr. Weaver or anyone else at AEPSC or Kentucky Power performed any analysis in which Kentucky Power would have an undivided ownership share of the Mitchell Plant greater or less than the 50 percent being proposed in this proceeding. If yes, provide the results along with the analysis.

c. State whether Mr. Weaver or anyone else at AEPSC or Kentucky Power performed any analysis in which Kentucky Power would have an undivided ownership in any other Ohio Power generating facilities along with its undivided 50 percent ownership share of the Mitchell Plant. If yes, provide the results along with the analysis.

46. Refer to page 5, lines 11-14, of the Weaver Testimony, which state:

> As summarized on SCW- Exhibit 2 and on the following TABLE 1, eleven (11) unique variations involving six (6) alternative options were assumed to be available to KPCo to address the unit disposition decisions facing both Big Sandy Units 1 and 2, including the prospect of a specific affiliate asset transfer...

Also refer to page 1 of Exhibit(s) SCW-5A to SCW-5E. The cumulative present worth of Option #5A in each scenario is a negative number or a savings as shown in the table below.

Option #5A : Big Sandy Unit 1 Gas Conversion (07/2015); Retire Big Sandy Unit 2 (06/2015); Mitchell Plant Unit 1 & 2 Transfer (01/2014); No Big Sandy Plant Replace-Rebuild Capacity at Generic Site; and No Market Purchase Duration

Exhibits	Cumulative Present Worth ($000)
Exhibit SCW-5A, Page 1 of 2 Base Pricing	($156,437)
Exhibit SCW-5B, Page 1 of 2 Higher Band Pricing	($149,439)
Exhibit SCW-5C, Page 1 of 2 Lower Band Pricing	($153,970)

Exhibit SCW-5D, Page 1 of 2 No Carbon Pricing	($168,178)
Exhibit SCW-5E, Page 1 of 2 Early Carbon Pricing	($144,386)

a. Although Option #6 may be the option proposed in this proceeding, state whether Option #5A may ultimately become the option that Kentucky Power will consider in meeting its load requirement to meet its native load to serve its customers.

b. Identify all other alternatives Kentucky Power considered for inclusion in its analyses but elected to exclude.

47. Refer to page 8, lines 7-21, of the Weaver Testimony, where it states:

> As summarized 011 SCW- Exhibit 2, Options #1B, #2B, #3B, #4A and #4B are largely identical to the disposition alternatives evaluated in Case No. 2011-00401. The only meaningful differences within this re-analysis for those options are:
>
> The recognized delay in the in-service dates for the Option #l DFGD retrofit to June 2017 (from June 2016); along with the attendant cost increases associated with that change.
>
> Likewise, the delay in the estimated in-service date of the replacement CC options (Options #2 and #3) to the same June 2017 timeframe, along with the attendant cost estimate modifications.
>
> The further recognition that such in-service delays would result in the need to rely solely on PJM market capacity and energy in the period post-unit retirements (June 2015 or April 2016, depending on the option and unit), until the 'build' option is completed in June 2017 (Options #1, #2, and #3).
>
> Options #1A, #2A, #3A, #5A, #5B and #6 represent alternative disposition options associated with this filing. Each of these new options offers variations as to the extent/level of an affiliate generating asset transfer from a portion of the Mitchell facility.

a. Provide the cost increase associated with the delay in the in-service date of the DFGD retrofit from June 2016 to June 2017.

b. State whether Kentucky Power agrees that the cost increase associated with the delay in the in-service date for the DFGD was a direct result of it voluntarily withdrawing its proposal in Case No. 2011-00401.[3]

c. Provide the amount of the cost increase associated with the delay in the in-service date of the replacement CC options (Options #2 and #3) to the same June 2017 timeframe.

d. State whether Kentucky Power agrees that the cost increase associated with the delay in the estimated in-service date of the replacement CC options was a direct result of Kentucky Power's voluntarily withdrawing its proposal in Case No. 2011-00401.[4]

e. Provide the potential cost associated with the recognition that such in-service delays would result in the need to rely solely on PJM market capacity and energy in the period post-unit retirements (June 2015 or April 2016, depending on the option and unit).

f. State whether Kentucky Power agrees that the cost associated with the recognition that such in-service delays would result in the need to rely solely on PJM market capacity and energy in the period post-unit retirements (June 2015 or April 2016,

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[3] *Id.*

[4] *Id.*

depending on the option and unit) was a direct result of Kentucky Power's voluntarily withdrawing its proposal in Case No. 2011-00401.[5]

48. Refer to page 15, lines 12-16 of the Weaver Testimony.

a. Explain why Kentucky Power chose 2011 as the start of the 30-year economic study period.

b. State whether there was any consideration given to a later start of the study period.

c. Explain how a later start of the study period would affect Kentucky Power's analyses.

49. Refer to page 18, line 19, of the Weaver Testimony. Explain precisely what is meant by the term "optimum FGD technology."

50. Refer to page 19, lines 5-7, of the Weaver Testimony, where it states, "[I]t was further assumed to be located at the existing Big Sandy site, thereby utilizing existing site infrastructure and transmission interconnections".

a. State whether any costs associated with dismantling any of the current facilities at the Big Sandy Generating Plant to make room for the CC facility were reflected in the analysis.

b. If the answer to a. is no, explain why. If the answer to a. is yes, provide the amounts and descriptions.

51. Refer to page 28, line 15, of the Weaver Testimony.

a. Explain why Option 6 was chosen as the base for the analysis.

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[5] *Id.*

b. Explain why Option 5A, the least-cost option, was not chosen as the base for the analysis.

52. Refer to page 31, lines 17-20, of the Weaver Testimony. Provide in electronic format, with formulas intact and cells unprotected, all work papers and assumptions that support the estimates of a $2.00 per Mwh for every $100 million in Cumulative Present Worth difference between options.

53. Refer to page 37, lines 19-20, of the Weaver Testimony, which state, "[W]hile that is possible, such existing assets markets are extremely limited, particularly for higher-utilization CC assets." State whether it is known if any high-utilization CC assets were acquired in 2011 and 2012 by utilities in PJM, or are currently in the process of being acquired by utilities in PJM.

54. Refer to Weaver Testimony, Exhibit SCW-3. Provide the commodity price projections used in the analyses after the year 2030.

55. Refer to Weaver Testimony, Exhibits SCW-5 A through E. Provide in electronic format, with all calculations and formulae intact, the worksheets used to prepare the tables and graphs presented in Exhibits SCW-5 A-E.

56. Provide Kentucky Power's financial assumptions used in its analyses, as well as supporting data and calculations, for the following:

a. Weighted Average Cost of Capital;

b. Nominal discount rate;

c. Inflation rate; and

d. Real discount rate.

57. Refer to page 6, lines 1-7, of the Direct Testimony of Ranie K. Wohnhas ("Wohnhas Testimony"), which state:

> As a member of the Pool Agreement Kentucky Power has been paying a share of the costs associated with the Mitchell plant since the plant was placed in service and the Company became a party to the Pool Agreement. Because payments through the Pool Agreement are cost based, it is appropriate to transfer the Mitchell plant at that same net book value to KPCo because the transaction is equivalent to a transfer from Ohio Power to Kentucky Power.

a. Provide the date Kentucky Power first became a party to the Pool Agreement.

b. Provide the in-service date(s) for Mitchell Plant Unit 1 and Unit 2.

c. Identify the deficit Pool members which currently make payments to the surplus Pool members.

d. Provide the basis for the decision that Kentucky Power should obtain a 50 percent undivided interest in Mitchell Plant Units 1 and 2, when in Case No. 2011-00401,[6] the decision was to obtain a 20 percent undivided interest.

58. Refer to page 6, lines 13-15, of the Wohnhas Testimony, which state, "Exhibit RKW-3 then adds estimated activity for 2012 and 2013 to arrive at an estimated Mitchell Plant balance as of 12/31/2013."

a. State whether the amount of $3,553,000, along with the number of allowances recorded in Accounts 158.1 and158.2, is the 12/31/2013 balance before or after the impact of eliminating the Interim Allowance Agreement ("IAA").

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[6] *Id.*

b. Provide the anticipated accounting entries, along with the account titles and the number of allowances, eliminating the IAA.

c. Provide the projected amounts to be recorded in Accounts 158.1 and 158.2 from Exhibit RKW-3, column heading 12/31/2013.

d. State whether the elimination of the IAA accounting entries will be recorded before or after the Transfer and Assumption Transaction accounting entries.

59. Refer to page 7, lines 1-6, of the Wohnhas Testimony, which state:

> The transferred Mitchell plant liabilities are anticipated to include an inter-company note. Additionally, there will be a surplus assets over liabilities that will be treated as a paid in capital contribution for accounting purposes. As such, a dividend of approximately $75 million may be necessary to return Kentucky Power's equity as a percentage of capitalization to the level immediately prior to the contribution.

a. Provide the accounting entries (account numbers, account titles, along with anticipated amounts) resulting from the Transfer and Assumption Transaction.

b. Provide the accounting entries to be made for the approximately $75 million dividend and explain how soon after the Transfer and Assumption Transaction it is expected this dividend will be paid.

c. Provide Kentucky Power's forecasted equity as a percentage of capitalization immediately prior to the Transfer and Assumption Transaction.

d. Provide Kentucky Power's forecasted equity as a percentage of capitalization immediately after the Transfer and Assumption Transaction, but prior to the dividend of approximately $75 million.

e. Provide Kentucky Power's forecasted equity as a percentage of capitalization immediately after the dividend of approximately $75 million.

f. Provide Kentucky Power's net income amounts from 2008 to 2012 and projected net income for 2013.

g. Explain what Kentucky Power's projected return on equity will be at the time the $75 million dividend is made.

h. Provide Kentucky Power's return on equity for the 12 months ended December 31, 2012.

60. Refer to page 8, lines 2-3, of the Wohnhas Testimony, where it states, "[A]s illustrated in Exhibit RKW-4, the overall cost of service impact would have been approximately 8% for 2011." From Exhibit RKW-4 provide the following:

a. Line 2, OSS Revenues (Note 3): Provide for all three columns, amounts broken down by Off-System Sales Revenue, PJM Capacity Sales, PJM Bill and Off-System Sales margin sharing;

b. Line 3, Pool Energy Sales, confirm that Pool Energy Sales Revenue are a decreased revenue (or a cost) which will go away when the Pool is eliminated;

c. Line 8, Net (Gain)/Expense on SO_2 Emission Allowances (Note 4): Explain the transactions along with the associated amounts resulting in the ($676,000) change;

d. Line 10, Pool/Market Capacity, which is currently an expense of $54,523,000 and goes to zero after the Asset Transfer and Pool Elimination: State whether this reduction is primarily due to the elimination of the Pool;

e. Line 11, Pool Energy Purchase, which is currently an expense of $15,209,000 and goes to zero after the Asset Transfer and Pool Elimination: State whether this reduction is due to the elimination of the Pool;

f. Line 12, Market Purchased Power for IL:

(1) Define and explain "IL";

(2) Explain why the current amount of $4,938,000 is decreased to $3,284;

g. Line 13, PJM Bill (LSE-portion): Explain why the current amount of $19,147,000 is increased by $10,877,000 to $30,024,000;

h. Line 20, Return Requirement (Pre Tax)*: Explain the detailed calculations supporting the $57,345,000 amount; and

i. Line 23, KPCo Sales Revenue: Explain how the $565,286,000 is broken down by retail base rates revenues, retail FAC revenue, retail System Sales Tracker revenue, retail Environmental Surcharge revenue, FERC Wholesale revenue, Associated Utilities revenue, Non-Associated Utilities revenues along with any other applicable revenues; and

j. In this exhibit, explain which category contains the amount of the net change in the cost of fuel between Big Sandy Plant and the Mitchell Plant and provide the amount.

61. Refer to page 8, lines 11-12, of the Wohnhas Testimony, where it states, ". . . the Company will need to file an application for a base rate change no later than June 28, 2013, with new rates to be effective January 1, 2014." State whether Kentucky

Power anticipates filing an application for a base rate change to be effective July 1, 2015, after Big Sandy Plant Unit 2 is retired.

62. Refer to page 8, lines 18-22, of the Wohnhas Testimony, which states:

> The retirement of Big Sandy Unit 2 would occur independent of any particular generation resource option that leads to its eventual retirement, including the transfer of a fifty percent interest in the Mitchell plant. The costs associated with the Big Sandy Unit 2 retirement will be addressed in the Company's next base rate case.

a. State whether there is a negative salvage amount or demolition amount for Big Sandy Plant currently reflected in its depreciation rates.

b. If the answer to a. is yes, provide the total amount and the amount that has been recovered from ratepayers over the life of Big Sandy Plant.

c. Provide what the depreciation rate for the generation plant would be for Kentucky Power once the Transfer and Assumption Transaction is completed.

d. State whether, once the Transfer and Assumption Transaction is completed, the annual amount of depreciation expense for generation plant would change from the current annual amount of depreciation expense for Kentucky Power's generation plant.

e. State whether Kentucky Power believes any emission allowances will remain at the retirement of Big Sandy Unit 2 and describe what will be done with those remaining emission allowances.

63. State when Ohio Power first began incurring costs associated with the installation of the FGDs on Mitchell Plant Units 1 and 2.

64. Refer to page 11, lines 2-3 of the Wohnhas Testimony, which states, "[A] detailed break-down of these expenditures is shown on Exhibit-RKW 5." Provide the following:

a. A detailed reconciliation and explanation of the amounts shown on RKW-Exhibit 5, Landfill column and Kentucky Power's response in Case No. 2011-00401,[7] Commission Staff's First Request for Information, Item No. 18, FGD Landfill column;

b. A detailed reconciliation and explanation of the amounts shown on RKW-Exhibit 5, WFGD column and Kentucky Power's response in Case No. 2011-00401,[8] Staff's First Request for Information, Item No. 18, WFGD column;

c. A detailed explanation as to the type of services and or costs reflected in the different categories in the DFGD column on RKW-Exhibit 5;

d. An explanation as to whether any of the costs shown on RKW-Exhibit 5 were directly incurred as a result of the Transfer and Assumption Transaction which is at issue in this proceeding; and

e. The reasoning for establishing the land purchase cost of $678,412 as a Regulatory Asset, given that land is a tangible asset and can be sold.

65. Provide a copy of the most current actual East Interchange Power Statement and Related Data Actual.

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[7] *Id.*

[8] *Id.*

66. a. Provide Kentucky Power's actual cost to prepare and present Case No. 2011-00401.[9]

b. Provide Kentucky Power's actual cost to date to prepare and present this case in the current proceedings, and going forward, provide monthly updates. This should be considered a recurring data request.

Jeff Derouen
Executive Director
Public Service Commission
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Dated FEB 06 2013

cc: Parties of Record

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[9] *Id.*

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